

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MAGOFFIN COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$4,474,306 as of June 30, 2007. The fiscal court had unrestricted net assets of \$259,628 in its governmental activities as of June 30, 2007. The fiscal court had total debt principal as of June 30, 2007, of \$7,407,355 with \$585,467 due within the next year.

Report Comments:

- 2007-01 The Fiscal Court Failed To Manage The Financial Activities Relating To Payroll Resulting In \$116,735 Of Questionable Overpayments And Unearned Benefits
- 2007-02 The Former Finance Officer's Wages Reported To The Kentucky Retirement System Were Overstated By \$28,551 For 2006 And \$9,974 For 2005
- 2007-03 The Former Finance Officer Received Additional Health Insurance Benefits Of \$7,214
- 2007-04 The County Paid \$11,795 To Buy Back Service Credit On Behalf Of The Former Finance Officer Without Fiscal Court Approval
- 2007-05 The Former Treasurer's Wages Reported To The Kentucky Retirement System Were Overstated By \$24,680 For 2006 And \$6,078 For 2005
- 2007-06 The Former County Treasurer Wages Reported To The County Employees Retirement System Were Overstated By \$5,196 And Employee Retirement Contributions Of \$3,594 Were Not Appropriately Withheld From Her Wages
- 2007-07 The Former Deputy/Judge Was Overpaid \$8,103
- 2007-08 The Former County Judge/Executive, Former Jailer, And Former Road Foreman Were Overpaid For Calendar Year 2006
- 2007-09 The Fiscal Court's Tax Reports Submitted To The Internal Revenue Service Had An \$8,773 Variance In Individual Employee Earnings Compared To Total Actual Earnings For 2006
- 2007-10 Timesheets And Leave Records Should Be Properly Maintained
- 2007-11 The Fiscal Court Should Approve An Annual Compensation Schedule
- 2007-12 The Fiscal Court Should Pay All Bills Within 30 Days
- 2007-13 The Fiscal Court Should Adopt A Written Investment Policy
- 2007-14 The Fiscal Court Should Maintain Adequate Financial Records And Provide Appropriate Oversight Over Financial Activities
- 2007-15 The Fiscal Court Should Prepare An Accurate 4th Quarter Financial Statement
- 2007-16 The Fiscal Court Has Made Numerous Social Security And Medicare Payroll Errors Resulting In A Liability In Excess Of \$30,000

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Bill May, Former Magoffin County Judge/Executive

Honorable Charles Hardin, Magoffin County Judge/Executive

Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Magoffin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Magoffin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting as described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

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To the People of Kentucky

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 Jonathan Miller, Secretary Finance and Administration Cabinet
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 Honorable Charles Hardin, Magoffin County Judge/Executive
 Members of the Magoffin County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Magoffin County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 15, 2008, on our consideration of Magoffin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2007-01 The Fiscal Court Failed To Manage The Financial Activities Relating To Payroll Resulting In \$116,735 Of Questionable Overpayments And Unearned Benefits
- 2007-02 The Former Finance Officer's Wages Reported To The Kentucky Retirement System Were Overstated By \$28,551 For 2006 And \$9,974 For 2005
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- 2007-04 The County Paid \$11,795 To Buy Back Service Credit On Behalf Of The Former Finance Officer Without Fiscal Court Approval
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2007-15 The Fiscal Court Should Prepare An Accurate 4th Quarter Financial Statement

2007-16 The Fiscal Court Has Made Numerous Social Security And Medicare Payroll Errors
Resulting In A Liability In Excess Of \$30,000

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

May 15, 2008

MAGOFFIN COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Charles Hardin	County Judge/Executive
Bill May	Former County Judge/Executive
Troy W. Minix	Magistrate
Manuel Minix	Magistrate
Pernell Lemaster	Magistrate

Other Elected Officials:

Donald W. McFarland	County Attorney
Gene Helton	Jailer
Haden B. Arnett	County Clerk
Sandy Gullett	Circuit Court Clerk
Randall Jordan	Sheriff
Bill Patrick	Property Valuation Administrator
Jerry Dunn	Coroner

Appointed Personnel:

Mary Lea Miller	County Treasurer
Susie Salyer	Finance Officer
Marcella Salyer	Former Finance Officer

MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 283,502
Total Current Assets	<u>283,502</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	804,003
Construction in Process	2,511,592
Buildings	7,328,340
Vehicles and Equipment	390,358
Infrastructure Assets	563,866
Total Noncurrent Assets	<u>11,598,159</u>
Total Assets	<u>11,881,661</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	328,800
Financing Obligations Payable	256,667
Total Current Liabilities	<u>585,467</u>
Noncurrent Liabilities:	
Bonds Payable	6,447,700
Financing Obligations Payable	374,188
Total Noncurrent Liabilities	<u>6,821,888</u>
Total Liabilities	<u>7,407,355</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,190,804
Restricted For:	
Capital Projects	23,874
Unrestricted	<u>259,628</u>
Total Net Assets	<u>\$ 4,474,306</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 2,239,793	\$ 55,441	\$ 704,363	\$ 1,759,625
Protection to Persons and Property	688,639	5,610	69,633	
General Health and Sanitation	112,309			
Social Services	22,591			
Recreation and Culture	187,869			
Roads	1,278,242		1,994,652	
Interest on Long-term Debt	364,625			
Capital Projects	487,049			
 Total Primary Government	 \$ 5,381,117	 \$ 61,051	 \$ 2,768,648	 \$ 1,759,625

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	279,636
	(613,396)
	(112,309)
	(22,591)
	(187,869)
	716,410
	(364,625)
	(487,049)
	<u>(791,793)</u>

	487,194
	10,480
	107,628
	1,218,087
	38,296
	40,916
	36,447
	<u>1,939,048</u>
	1,147,255
	<u>3,327,051</u>
\$	<u>4,474,306</u>

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MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Local Government Economic Assistance Fund	Solid Waste Fund	Building Admini- stration Fund
ASSETS					
Cash and Cash Equivalents	\$ 106,220	\$ 4,034	\$	\$	\$ 23,874
Total Assets	<u>106,220</u>	<u>4,034</u>			<u>23,874</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Cash Shortage			4,633	4,174	
Total Liabilities			<u>4,633</u>	<u>4,174</u>	
FUND BALANCES					
Fund Balances:					
Unreserved:					
General Fund	106,220				
Special Revenue Funds		4,034	(4,633)	(4,174)	
Capital Projects Funds					23,874
Total Fund Balances	<u>106,220</u>	<u>4,034</u>	<u>(4,633)</u>	<u>(4,174)</u>	<u>23,874</u>
Total Liabilities and Fund Balances	<u>\$ 106,220</u>	<u>\$ 4,034</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,874</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

Magoffin County Public Properties Corporation Justice Center	Non- Major Governmental Funds	Total Governmental Funds
\$ 132,794	\$ 25,387	\$ 292,309
132,794	25,387	292,309
		8,807
		8,807
		106,220
	25,387	20,614
132,794		156,668
132,794	25,387	283,502
\$ 132,794	\$ 25,387	\$ 292,309

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

Total Fund Balances	\$ 283,502
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	12,717,174
Accumulated Depreciation	(1,119,015)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(630,855)
Bonds	(6,776,500)
Net Assets Of Governmental Activities	\$ 4,474,306

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Local Government Economic Assistance Fund	Solid Waste Fund
REVENUES				
Taxes	\$ 1,552,812	\$	\$	\$ 26,045
Excess Fees	38,296			
Licenses and Permits	80,378			
Intergovernmental	300,035	1,285,953	1,131,784	62,231
Charges for Services				135
Miscellaneous	93,945	39,734	8,652	16,979
Interest	267	410	156	26
Total Revenues	<u>2,065,733</u>	<u>1,326,097</u>	<u>1,140,592</u>	<u>105,416</u>
EXPENDITURES				
General Government	1,005,959	9,900	32,491	
Protection to Persons and Property	5,750		23,530	
General Health and Sanitation			7,607	99,537
Social Services	2,000		20,591	
Recreation and Culture			164,665	
Roads		1,079,580	34,327	
Debt Service	180,637			143,882
Capital Projects			487,049	
Administration	461,815	378,534	122,017	10,649
Total Expenditures	<u>1,656,161</u>	<u>1,468,014</u>	<u>892,277</u>	<u>254,068</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>409,572</u>	<u>(141,917)</u>	<u>248,315</u>	<u>(148,652)</u>
Other Financing Sources (Uses)				
Transfers To Other Funds	(636,100)	(165,000)	(485,000)	(30,000)
Transfers From Other Funds	220,000	293,000	85,000	171,000
Total Other Financing Sources (Uses)	<u>(416,100)</u>	<u>128,000</u>	<u>(400,000)</u>	<u>141,000</u>
Net Change in Fund Balances	(6,528)	(13,917)	(151,685)	(7,652)
Fund Balances - Beginning (Restated)	112,748	17,951	147,052	3,478
Fund Balances - Ending	<u>\$ 106,220</u>	<u>\$ 4,034</u>	<u>\$ (4,633)</u>	<u>\$ (4,174)</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Building Administration Fund	Magoffin County Public Properties Corporation Justice Center	Non- Major Governmental Funds	Total Governmental Funds
\$	\$	\$ 142,310	\$ 1,721,167
			38,296
			80,378
1,035,000	601,946	75,243	4,492,192
			135
			159,310
29,351	6,633	51	36,894
1,064,351	608,579	217,604	6,528,372
			1,048,350
		664,614	693,894
			107,144
			22,591
			164,665
			1,113,907
	602,448	11,797	938,764
2,313,210			2,800,259
		73,977	1,046,992
2,313,210	602,448	750,388	7,936,566
(1,248,859)	6,131	(532,784)	(1,408,194)
			(1,316,100)
		547,100	1,316,100
		547,100	
(1,248,859)	6,131	14,316	(1,408,194)
1,272,733	126,663	11,071	1,691,696
\$ 23,874	\$ 132,794	\$ 25,387	\$ 283,502

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (1,408,194)
<p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	2,333,462
Depreciation Expense	(228,707)
Capital Assets Disposed of, Net Book Value	(123,445)
<p>Debt Issuance Proceeds Provide Current Financial Resources to Governmental Funds While Financing Obligation and Bond Principal Payments are Expensed In the Governmental Funds as a Use of Current Financial Resources. These Transactions, However Have no Effect on Net Assets.</p>	
Financing Obligations Principal Payments	260,539
Bond Principal Payments	313,600
Change in Net Assets of Governmental Activities	<u><u>\$ 1,147,255</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Magoffin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Magoffin County Public Properties Corporation

The Magoffin County Fiscal Court appoints a voting majority of the Magoffin County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Magoffin County Public Properties Corporation.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Magoffin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Magoffin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not included in the financial statements of Magoffin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs. The County has no business-type activities or fiduciary funds.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on June 30 following the delinquency date.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements. Magoffin County does not have any proprietary or fiduciary funds.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Solid Waste Fund - The primary purpose of this fund is to account for the solid waste expenses of the county. The primary sources of revenue for this fund are monthly collection fees and from the state and federal government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Building Administration Fund - The primary purpose of this fund is to account for local government economic development funds obtained by the county to construct a courthouse annex.

Magoffin County Public Properties Corporation - Justice Center - The Magoffin County, Public Properties Corporation - Justice Center accounts for the activities of the Magoffin County, Public Properties Corporation - Justice Center, a blended component unit of the county. The Magoffin County, Public Properties Corporation - Justice Center issued debt to purchase property and build facilities of the justice center. The Magoffin County, Public Properties Corporation - Justice Center entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Department for Local Government does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, Forest Fire Fund, Community Center Sinking Fund, 911 Fund, and Reserve Fund.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Solid Waste Fund, Local Government Economic Assistance Fund, Forest Fire Fund, Community Center Sinking Fund, 911 Fund, and Reserve Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Magoffin County Public Properties Corporation - Justice Center and the Building Administration Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The county is reporting only infrastructure, placed in service on and after July 1, 2003.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	10
Buildings	\$ 5,000	20-50
Land Improvements	\$ 5,000	20-40
Infrastructure	\$ 5,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Magoffin County Public Properties Corporation Justice Center Fund. The Department for Local Government does not require this fund to be budgeted.

J. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Magoffin County Fiscal Court: The Big Sandy Regional Jail.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 804,003	\$	\$	\$ 804,003
Construction In Progress	198,382	2,313,210		2,511,592
Total Capital Assets Not Being Depreciated	1,002,385	2,313,210		3,315,595
Capital Assets, Being Depreciated:				
Buildings	8,145,475			8,145,475
Vehicles and Equipment	833,388	20,252	(242,955)	610,685
Infrastructure	645,419			645,419
Total Capital Assets Being Depreciated	9,624,282	20,252	(242,955)	9,401,579
Less Accumulated Depreciation For:				
Buildings	(653,087)	(164,048)		(817,135)
Vehicles and Equipment	(300,995)	(38,842)	119,510	(220,327)
Infrastructure	(55,736)	(25,817)		(81,553)
Total Accumulated Depreciation	(1,009,818)	(228,707)	119,510	(1,119,015)
Total Capital Assets, Being Depreciated, Net	8,614,464	(208,455)	(123,445)	8,282,564
Governmental Activities Capital Assets, Net	\$ 9,616,849	\$ 2,104,755	\$ (123,445)	\$ 11,598,159

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 144,451
Protection to Persons and Property	14,997
General Health and Sanitation	5,165
Recreation and Culture	23,204
Roads	40,890
Total Depreciation Expense - Governmental Activities	<u>\$ 228,707</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt

A. First Mortgage Revenue Bonds, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5% interest for the completion of the Magoffin County Community Center Project. The county will pay semi annual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$106,500 as of June 30, 2007. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2008	\$ 3,800	\$ 5,325
2009	4,000	5,135
2010	4,200	4,935
2011	4,400	4,725
2012	4,600	4,505
2013-2017	26,700	18,840
2018-2022	34,100	11,450
2023-2025	24,700	2,500
Totals	<u>\$ 106,500</u>	<u>\$ 57,415</u>

B. First Mortgage Revenue Bonds, Series 1995

On August 1, 2002, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$7,855,000 in First Mortgage Revenue Bonds for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2003. The bonds will be paid in full May 2023.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Courthouse. The Public Properties Corporation expects rentals for use of the Magoffin County Courthouse to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

The AOC with the execution of the lease expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate the AOC to do so.

As of June 30, 2007, the principal balance on these bonds was \$6,670,000. Debt service requirements for the remaining years are:

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds. Series 2002 (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2008	\$ 325,000	\$ 277,080
2009	335,000	263,592
2010	340,000	249,690
2011	360,000	235,580
2012	360,000	220,640
2013-2017	1,985,000	869,348
2018-2022	2,415,000	424,675
2023	550,000	23,100
Totals	<u>\$ 6,670,000</u>	<u>\$ 2,563,705</u>

C. Financing Obligation – Transfer Station

The fiscal court entered into a loan agreement with Kentucky Infrastructure Authority, the purpose of which was to match funds required for the Appalachian Regional Commission grant received for the transfer station construction. The total amount approved was \$300,000. This loan has an interest rate 3.8% and repayment began after all funds were drawn down. The county will pay semi annual installments due on June 1 and December 1 of each year in accordance with a schedule to complete the contract. The county was late in paying the amount due on June 1, 2006; payment was made in July 2006. The principal balance of the agreement was \$169,070 as of June 30, 2007. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2008	\$ 19,882	\$ 6,566
2009	20,644	5,764
2010	21,437	4,929
2011	22,259	4,064
2012	23,113	3,165
2013-2015	61,735	3,750
Totals	<u>\$ 169,070</u>	<u>\$ 28,238</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

D. Financing Obligation - Equipment

On December 3, 2001, the fiscal court entered into an agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal of the lease was \$490,000 with repayment to be made over an eleven-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$275,000 as of June 30, 2007. Principal payment requirements and scheduled interest for remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2008	\$ 50,000	\$ 13,310
2009	50,000	10,910
2010	55,000	8,300
2011	60,000	5,360
2012	60,000	1,870
Totals	<u>\$ 275,000</u>	<u>\$ 39,750</u>

E. Financing Obligation - Garbage Trucks

On April 24, 2003, the fiscal court entered into an agreement with Kentucky Area Development District for the purpose of purchasing garbage trucks. The principal of the lease was \$155,000 with repayment to be made over a five-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$35,000 as of June 30, 2007. Principal payment requirements and scheduled interest for remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2008	\$ 35,000	\$ 1,935
Totals	<u>\$ 35,000</u>	<u>\$ 1,935</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

F. Kentucky Area Development District - Equipment

On April 24, 2003, the fiscal court entered into an agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal of the lease was \$490,000 with repayment to be made over a five-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$105,000 as of June 30, 2007. Principal payment requirements and scheduled interest for remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest & Fees
2008	\$ 105,000	\$ 4,805
Totals	<u>\$ 105,000</u>	<u>\$ 4,805</u>

G. Salyersville National Bank

On July 30, 2004, the fiscal court entered into a loan agreement with Salyersville National Bank for operating the Solid Waste Fund in the amount of \$100,175. The interest rate is variable not to be less than 6.5%. The agreement requires 35 monthly payments of \$1,967 and one balloon payment of \$45,924 on July 30, 2007 based on 6.5% interest. As of June 30, 2007, the interest rate was 8.25% and the principal balance outstanding was \$46,785. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2008	\$ 46,785	\$ 409
Totals	<u>\$ 46,785</u>	<u>\$ 409</u>

H. Kentucky Area Development District - Delinquent Payment

The fiscal court was delinquent on a Kentucky Area Development District payment due in October 2003. As of June 30, 2007, the fiscal court owed principal of \$40,000 and interest of \$11,248. On August 15, 2006, the fiscal court paid this delinquent amount totaling \$51,248.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

I. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 7,090,100	\$	\$ 313,600	\$ 6,776,500	\$ 328,800
Financing Obligations	891,394		260,539	630,855	256,667
Governmental Activities					
Long-term Liabilities	<u>\$ 7,981,494</u>	<u>\$ 0</u>	<u>\$ 574,139</u>	<u>\$ 7,407,355</u>	<u>\$ 585,467</u>

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Ky 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2007, Magoffin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Prior Period Adjustments

The prior year fund balances for the Local Governmental Economic Assistance Fund and Building Administrative Fund have been restated by \$1,460, and \$45,692, respectively, due to prior year voided checks. Prior year net assets were restated by \$103,336 due to capital assets omitted from the prior year. In addition, an immaterial adjustment of \$144 was made to the Road Fund.

Note 8. Deficit Fund Balances

The fiscal court has a shortage in the Local Government Economic Assistance Fund of \$4,633 and Solid Waste fund of \$4,174 resulting in fund deficits totaling \$8,807.

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MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,446,847	\$ 1,568,012	\$ 1,552,812	\$ (15,200)
Excess Fees		36,839	38,296	1,457
Licenses and Permits	84,895	87,133	80,378	(6,755)
Intergovernmental Revenue	206,158	310,654	300,035	(10,619)
Miscellaneous	70,025	132,371	93,945	(38,426)
Interest	500	500	267	(233)
Total Revenues	1,808,425	2,135,509	2,065,733	(69,776)
EXPENDITURES				
General Government	862,122	1,003,600	1,005,959	(2,359)
Protection to Persons and Property	9,000	6,000	5,750	250
Social Services	1,667	2,000	2,000	
Debt Service	114,163	180,663	180,637	26
Administration	309,182	438,961	461,815	(22,854)
Total Expenditures	1,296,134	1,631,224	1,656,161	(24,937)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	512,291	504,285	409,572	(94,713)
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(562,291)	(617,880)	(636,100)	(18,220)
Transfers From Other Funds			220,000	220,000
Total Other Financing Sources (Uses)	(562,291)	(617,880)	(416,100)	201,780
Net Changes in Fund Balance	(50,000)	(113,595)	(6,528)	107,067
Fund Balance - Beginning	50,000	113,595	112,748	(847)
Fund Balance - Ending	\$ 0	\$ 0	\$ 106,220	\$ 106,220

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ 4,620	\$ 4,620	\$	\$ (4,620)
Intergovernmental Revenue	1,053,590	1,285,952	1,285,953	1
Miscellaneous	500	39,250	39,734	484
Interest	500	500	410	(90)
Total Revenues	<u>\$ 1,059,210</u>	<u>\$ 1,330,322</u>	<u>\$ 1,326,097</u>	<u>\$ (4,225)</u>
EXPENDITURES				
General Government	10,800	6,300	9,900	(3,600)
Roads	716,793	1,130,771	1,079,580	51,191
Administration	331,617	361,249	378,534	(17,285)
Total Expenditures	<u>1,059,210</u>	<u>1,498,320</u>	<u>1,468,014</u>	<u>30,306</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>(167,998)</u>	<u>(141,917)</u>	<u>26,081</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(165,000)	(165,000)
Transfers From Other Funds		150,191	293,000	142,809
Total Other Financing Sources (Uses)		<u>150,191</u>	<u>128,000</u>	<u>(22,191)</u>
Net Changes in Fund Balance		(17,807)	(13,917)	3,890
Fund Balance - Beginning (Restated)		<u>17,807</u>	<u>17,951</u>	<u>144</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,034</u>	<u>\$ 4,034</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 756,183	\$ 1,379,824	\$ 1,131,784	\$ (248,040)
Miscellaneous	1,500	8,800	8,652	(148)
Interest	500	500	156	(344)
Total Revenues	758,183	1,389,124	1,140,592	(248,532)
EXPENDITURES				
General Government	40,179	37,797	32,491	5,306
Protection to Persons and Property	48,500	25,322	23,530	1,792
General Health and Sanitation	8,600	7,770	7,607	163
Social Services	30,000	30,000	20,591	9,409
Recreation and Culture	77,154	174,302	164,665	9,637
Roads	200,551	110,051	34,327	75,724
Capital Projects	48,654	564,245	487,049	77,196
Administration	195,094	335,822	122,017	213,805
Total Expenditures	648,732	1,285,309	892,277	393,032
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	109,451	103,815	248,315	144,500
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(129,451)	(249,406)	(485,000)	(235,594)
Transfers From Other Funds			85,000	85,000
Total Other Financing Sources (Uses)	(129,451)	(249,406)	(400,000)	(150,594)
Net Changes in Fund Balance	(20,000)	(145,591)	(151,685)	(6,094)
Fund Balance - Beginning	20,000	145,591	147,052	1,461
Fund Balance - Ending	\$ 0	\$ 0	\$ (4,633)	\$ (4,633)

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

SOLID WASTE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 25,200	\$ 25,200	\$ 26,045	\$ 845
Intergovernmental Revenue	26,704	60,603	62,231	1,628
Charges for Services	1,000	1,000	135	(865)
Miscellaneous	9,000	13,540	16,979	3,439
Interest			26	26
Total Revenues	61,904	100,343	105,416	5,073
EXPENDITURES				
General Health and Sanitation	65,486	104,332	99,537	4,795
Debt Service	143,834	143,834	143,882	(48)
Administration	15,419	12,532	10,649	1,883
Total Expenditures	224,739	260,698	254,068	6,630
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(162,835)	(160,355)	(148,652)	11,703
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(30,000)	(30,000)
Transfers From Other Funds	162,835	160,355	171,000	10,645
Total Other Financing Sources (Uses)	162,835	160,355	141,000	(19,355)
Net Changes in Fund Balance			(7,652)	(7,652)
Fund Balance - Beginning			3,478	3,478
Fund Balance - Ending	\$ 0	\$ 0	\$ (4,174)	\$ (4,174)

MAGOFFIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Expenditures Over Appropriations

General Fund expenditures exceeded the budget by \$24,937.

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**MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Jail Fund	Forest Fire Fund	Community Center Sinking Fund	911 Fund
ASSETS				
Cash and Cash Equivalents	\$ 3,275	\$ 7,548	\$ 81	\$ 14,261
Total Assets	<u>3,275</u>	<u>7,548</u>	<u>81</u>	<u>14,261</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	<u>3,275</u>	<u>7,548</u>	<u>81</u>	<u>14,261</u>
Total Fund Balances	<u>\$ 3,275</u>	<u>\$ 7,548</u>	<u>\$ 81</u>	<u>\$ 14,261</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2007
(Continued)

Reserve Fund	Total Non-Major Governmental Funds
<u>\$ 222</u>	<u>\$ 25,387</u>
<u>222</u>	<u>25,387</u>
<u>222</u>	<u>25,387</u>
<u>\$ 222</u>	<u>\$ 25,387</u>

The accompanying notes are an integral part of the financial statements.

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MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Jail Fund	Forest Fire Fund	Community Center Sinking Fund	911 Fund
REVENUES				
Taxes	\$	\$ 4,652	\$	\$ 137,658
Intergovernmental	75,243			
Interest	37			14
Total Revenues	<u>75,280</u>	<u>4,652</u>	<u></u>	<u>137,672</u>
EXPENDITURES				
Protection to Persons and Property	524,749			139,865
Debt Service			11,797	
Administration	27,697			46,280
Total Expenditures	<u>552,446</u>	<u></u>	<u>11,797</u>	<u>186,145</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(477,166)</u>	<u>4,652</u>	<u>(11,797)</u>	<u>(48,473)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	477,500		11,100	58,500
Total Other Financing Sources (Uses)	<u>477,500</u>	<u></u>	<u>11,100</u>	<u>58,500</u>
Net Change in Fund Balances	334	4,652	(697)	10,027
Fund Balances - Beginning	<u>2,941</u>	<u>2,896</u>	<u>778</u>	<u>4,234</u>
Fund Balances - Ending	<u><u>\$ 3,275</u></u>	<u><u>\$ 7,548</u></u>	<u><u>\$ 81</u></u>	<u><u>\$ 14,261</u></u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Reserve Fund	Total Non-Major Governmental Funds
\$	\$ 142,310
	75,243
	51
	217,604
	664,614
	11,797
	73,977
	750,388
	(532,784)
	547,100
	547,100
	14,316
222	11,071
\$ 222	\$ 25,387

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill May, Former Magoffin County Judge/Executive
The Honorable Charles Hardin, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 15, 2008. Magoffin County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Magoffin County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Magoffin County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Magoffin County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting: 2007-01, 2007-03, 2007-04, 2007-06, 2007-07, 2007-08, 2007-09, 2007-14, 2007-15, and 2007-16.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the following significant deficiencies described above as items 2007-01, 2007-03, 2007-04, 2007-06, 2007-07, 2007-14, and 2007-15 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations: 2007-02, 2007-05, 2007-10, 2007-11, 2007-12, and 2007-13.

The Magoffin County Judge/Executive's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 15, 2008

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2007

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2007

FINANCIAL STATEMENT FINDINGS:

2007-01 The Fiscal Court Failed To Manage The Financial Activities Relating To Payroll Resulting In \$116,735 Of Questionable Overpayments And Unearned Benefits

This audit report addresses internal control and compliance issues including the following:

- The Former Finance Officer's Wages Reported To The Kentucky Retirement System Were Overstated By \$28,551 For 2006 And \$9,974 For 2005 (See 2007-02)
- The Former Treasurer's Wages Reported To The Kentucky Retirement System Were Overstated By \$24,680 For 2006 And \$6,078 For 2005 (See 2007-05)
- The Former Finance Officer Received Health Insurance Benefits Of \$7,214 (See 2007-03)
- The County Paid \$11,795 To Buy Back Service Credit On Behalf Of The Former Finance Officer Without Fiscal Court Approval (See 2007-04)
- The Former County Treasurer Wages Reported To The County Employees Retirement System Were Overstated By \$5,196 And Employee Retirement Contributions Of \$3,594 Were Not Appropriately Withheld From Her Wages (See 2007-06)
- The Fiscal Court's Tax Reports Submitted To The Internal Revenue Service Had An \$8,773 Variance In Individual Employee Earnings Compared To Total Actual Earnings For 2006 (See 2007-09)
- The Former Road Foreman Was Overpaid 60 Hours Of Unearned Vacation And Sick Time Resulting In An Overpayment Of \$775 (See 2007-08)
- The Former Deputy/Judge Was Overpaid \$8,103 (See 2007-07)
- The Former County Judge/Executive Was Overpaid \$1,343 for Calendar Year 2006 (See 2007-08)
- The Former Jailer Was Overpaid \$659 for Calendar Year 2006 (See 2007-08)

The former finance officer and former treasurer processed payroll while the former deputy judge/executive signed the payroll checks. As shown above, there are multiple comments specifically related to reported wages. The conditions surrounding these comments increased the risk of material misstatement caused by error or fraud. In addition, there was no oversight from the former County Judge/Executive or any other employee over the payroll process. We recommend the Fiscal Court improve the financial accountability of payroll by addressing these issues to reduce the risk of material misstatement to public funds.

County Judge/Executive's Response: See his overall response at the end of this section

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

2007-02 The Former Finance Officer's Wages Reported To The Kentucky Retirement System Were Overstated By \$28,551 For 2006 And \$9,974 For 2005

Total wages reported to the Kentucky Retirement System for the former finance officer was \$97,497 and \$59,549 for calendar years 2006 and 2005 respectively. Payroll records indicate that of the \$97,497 of 2006 wages reported, \$28,551 was for lump sum payments. The lump sum payments consisted of \$24,915 of accrued vacation leave and \$3,635 of accrued sick leave. Also, payroll records indicate that of the \$59,549 of 2005 wages reported, \$9,974 was for lump sum accrued vacation leave.

According to the Kentucky Retirement Systems Reporting Official Manual, the county should report all creditable compensation monthly. Creditable compensation includes all salary, wages, and compensatory time paid to the employee as a result of services performed for the employer or for time during which the member is on paid leave. Lump-sum payments for accrued vacation leave and sick leave are not considered creditable compensation and should not be reported to the retirement system. It should be noted that the former finance officer retired in December 2006. These lump sum payments were not made at the time of retirement but rather throughout the calendar years 2006 and 2005.

Therefore, the former finance officer's creditable compensation reported to the retirement system was overstated by \$28,551 for 2006 and \$9,974 for 2005. This would result in the former finance officer receiving a higher retirement benefit because her wages were overstated.

We recommend the Fiscal Court consult with the County Attorney and the Kentucky Retirement System to determine an appropriate resolution to the wages reported. This matter will be referred to the Kentucky Retirement System for further review.

County Judge/Executive's Response: See his overall response at the end of this section

2007-03 The Former Finance Officer Received Additional Health Insurance Benefits Of \$7,214

The former finance officer received additional health insurance coverage beyond the single plan that is provided by the county to all county employees. Additional health insurance premiums of \$7,214 were paid during the fiscal year; however, no money was withheld from her paychecks. The county paid the additional premiums for her during the fiscal year ended June 30, 2007. Since these premiums were over and above what was provided for all employees it should have been approved by the Fiscal Court and included as a taxable benefit on the former finance officer's wage and tax statements. The Fiscal Court did not approve these payments nor were they included on her wage and tax statements. As stated in comment 2007-01, the fiscal court lacked proper oversight over the payroll process. We recommend the County Judge/Executive consult with the County Attorney to determine the necessary steps to recoup this money. This matter will be referred to the Kentucky State Police, Internal Revenue Service, Kentucky Department of Revenue and the Social Security Administration for further review.

County Judge/Executive's Response: See his overall response at the end of this section

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

2007-04 The County Paid \$11,795 To Buy Back Service Credit On Behalf Of The Former Finance Officer Without Fiscal Court Approval

Payments totaling \$17,570 were made to the County Employees Retirement System, administered by the Kentucky Retirement System, to buy back service credit on behalf of the former finance officer from January 2005 through December 2006. During this period \$5,775 was withheld from the former finance officer's wages and the Fiscal Court paid the remaining \$11,795. Fiscal court did not approve this payment nor was there any agreement made between the former finance officer and the county to buy back service credit. In addition, this should have been included as a taxable benefit on the former finance officer's wage and tax statements. As noted in comment 2007-01, the fiscal court lacked proper oversight over the payroll process. We recommend the County Judge/Executive consult with the County Attorney to determine the necessary steps to recoup this money. This matter will be referred to the Kentucky State Police, Internal Revenue Service, Kentucky Department of Revenue and the Social Security Administration for further review.

County Judge/Executive's Response: See his overall response at the end of this section

2007-05 The Former Treasurer's Wages Reported To The Kentucky Retirement System Were Overstated By \$24,680 For 2006 And \$6,078 For 2005

Total wages reported to the Kentucky Retirement System for the former treasurer was \$71,658 and \$37,716 for calendar years 2006 and 2005 respectively. Payroll records for 2006 indicate wages of \$66,462, resulting in a \$5,196 variance. Of the \$66,462 of 2006 wages reported, \$24,680 was for lump sum payments. The lump sum payments consisted of \$17,433 of accrued vacation leave and \$7,247 of accrued sick leave. Also, payroll records indicate of the \$37,716 of 2005 wages reported, \$5,622 was for lump sum accrued vacation leave and \$456 of accrued sick leave.

According to the Kentucky Retirement Systems Reporting Official Manual, the county should report all creditable compensation monthly. Creditable compensation includes all salary, wages, and compensatory time paid to the employee as a result of services performed for the employer or for time during which the member is on paid leave. Lump-sum payments for accrued vacation leave and sick leave are not considered creditable compensation and should not be reported to the retirement system. It should be noted the former county treasurer is currently working for the Fiscal Court as an administrative assistant. The lump sum payments were made throughout the calendar years 2006 and 2005.

Therefore, the former treasurer's creditable compensation reported to the retirement system was overstated by \$24,680 for 2006 and \$6,078 for 2005. This would result in the former treasurer receiving a higher retirement benefit because her wages were overstated.

We recommend the Fiscal Court consult with the County Attorney and the Kentucky Retirement System to determine an appropriate resolution to the wages reported. This matter will be referred to the Kentucky Retirement System for further review.

County Judge/Executive's Response: See his overall response at the end of this section

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

2007-06 The Former County Treasurer Wages Reported To The County Employees Retirement System Were Overstated By \$5,196 And Employee Retirement Contributions Of \$3,594 Were Not Appropriately Withheld From Her Wages

The amount of 2006 wages reported to the County Employees Retirement System (CERS) for the former county treasurer was \$71,658 and the amount reflected on her W-2 and her employee earnings records was \$66,462 resulting in a \$5,196 variance. In addition, we noted \$1,617 and \$1,977 of employee retirement contributions were not appropriately withheld from her 2005 and 2006 wages. Retirement reports submitted to CERS for calendar year 2006 showed her employee retirement contribution of \$3,699 however, her payroll earnings records show that \$1,722 was withheld from her paycheck indicating that the Fiscal Court contributed \$1,977 of her share of retirement contribution as well as the county's share. Also, the 2005 retirement reports submitted to CERS for calendar 2005 indicated she did not withhold \$1,617 of her 2005 employee retirement contribution. The Fiscal Court did not approve to make the payment for both the employee and employer share of retirement and since this additional benefit was over and above what was provided for all employees it should have been approved by the Fiscal Court and included as a taxable benefit on her wage and tax statements. As stated in comment 2007-01, the fiscal court lacked appropriate oversight over the payroll process. We recommend the County Judge/Executive consult with the County Attorney to determine the necessary steps to recoup this money. This matter will be referred to the Kentucky State Police, Internal Revenue Service, Kentucky Department of Revenue and the Social Security Administration for further review.

County Judge/Executive's Response: See his overall response at the end of this section

2007-07 The Former Deputy/Judge Was Overpaid \$8,103

The former Deputy Judge/Executive was overpaid \$8,103 for calendar year 2006. The Fiscal Court approved the former deputy judge/executive to be paid \$23,502 for 2006. However, she actually received \$38,242 in compensation. Of the \$38,242, \$7,180 was accrued vacation and sick leave she was entitled to receive, leaving an overpayment of \$8,103. The overpayment resulted from regular earnings exceeding the approved budgeted amount by \$5,002, receiving pay for unearned vacation and sick time of \$2,557 and receiving 40 hours of pay on her December 29, 2006 pay check not included on the approved timesheet totaling \$544. Since there is no record of Fiscal Court approving an additional salary for the former deputy judge/executive and no budget amendments were requested for the year, the regular salary should agree to the approved budgeted amounts. An employee should only be paid for sick and vacation time if the time has been earned and remains unused and employees should only be paid for actual hours worked. We recommend the Fiscal Court and County Attorney examine the payroll records for the former deputy judge/executive to determine the appropriate steps to be taken. We further recommend, the county treasurer review leave balances prior to payment to ensure that employees have the accumulated leave balance. In addition, the county treasurer should review timesheets and ensure payment is made for only actual hours worked.

County Judge/Executive's Response: See his overall response at the end of this section

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

2007-08 The Former County Judge/Executive, Former Jailer, And Former Road Foreman Were Overpaid For Calendar Year 2006

During the audit, we noted the following:

1. The former county judge/executive was paid \$1,343 as a form of a flexible spending plan reimbursement because he did not participate in the health insurance plan offered by the County. The County was not an active participant in any flexible spending plan.
2. The former jailer was paid \$659 above his approved salary.
3. The former road foreman was paid \$775 in unearned vacation and sick leave.

We recommend the fiscal court consult with the county attorney to determine an appropriate resolution to the overpayments.

County Judge/Executive's Response: See his overall response at the end of this section

2007-09 The Fiscal Court's Tax Reports Submitted To The Internal Revenue Service Had An \$8,773 Variance In Individual Employee Earnings Compared To Total Actual Earnings For 2006

The transmittal of wage and tax statements (W-3) submitted to the Internal Revenue Service should have the total of all employees earnings paid during a calendar year. The county's 2006 W-3 did not agree to the Fiscal Court's payroll earning records or the W-2's issued to county employees. The W-3 submitted to the IRS showed gross wages of \$1,261,560 while the employee payroll earning records and W-2's issued showed gross wages as \$1,252,787 leaving a variance of \$8,773. The sum of all the employees' earnings and W-2's should agree to the amounts reported on the W-3. We recommend that before W-2's are issued they be reconciled to the employee payroll earnings records and then to the W-3. In addition, we recommend the Fiscal Court immediately seek professional tax guidance to correct this payroll issue by amending the appropriate reports. We are referring this to the Social Security Administration, Internal Revenue Service, and the Kentucky Department of Revenue.

County Judge/Executive's Response: See his overall response at the end of this section

2007-10 Timesheets And Leave Records Should Be Properly Maintained

During testing, we found that timesheets and leave records were not properly maintained. Several employees did not maintain timesheets while other timesheets did not have proper supervisory approval. According to KRS 337.320, "Every employer shall keep a record of ... the hours worked each day and each week by each employee." In addition, several mathematical errors were found on leave records and these records did not include all vacation and sick leave taken, resulting in overpayments.

We recommend the Fiscal Court implement procedures to ensure that timesheets are maintained and properly approved and that vacation and sick leave are recorded and monitored to ensure overpayments do not occur. We will refer this matter to the County Attorney for further review.

County Judge/Executive's Response: See his overall response at the end of this section

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

2007-11 The Fiscal Court Should Approve An Annual Compensation Schedule

A salary schedule for all county employees was not presented to the Fiscal Court for approval. KRS 64.530 says, "The Fiscal Court of each county shall fix the compensation of every county officer and employee." We recommend the Fiscal Court approve a salary schedule annually.

County Judge/Executive's Response: See his overall response at the end of this section

2007-12 The Fiscal Court Should Pay All Bills Within 30 Days

Thirty-three invoices totaling \$617,565 out of 134 tested were not paid within 30 days of receipt. KRS 65.140(2) states, "All bills for goods or services shall be paid within thirty (30) working days of receipt of a vendors invoice." We recommend the Fiscal Court pay all bills within 30 working days as required.

County Judge/Executive's Response: See his overall response at the end of this section

2007-13 The Fiscal Court Should Adopt A Written Investment Policy

The Fiscal Court had not adopted a written investment policy of public funds. KRS 66.480(3) requires Fiscal Courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the Fiscal Court adopt a written investment policy per KRS 66.480 (3). If needed, the Fiscal Court should request the County Attorney assist in developing a written investment policy.

County Judge/Executive's Response: See his overall response at the end of this section

2007-14 The Fiscal Court Should Maintain Adequate Financial Records And Provide Appropriate Oversight Over Financial Activities

During the audit, we noted the following:

1. The payroll revolving account had a June 30, 2007 reconciled balance of \$13,114. We were unable to determine if additional payroll liabilities existed at year end or if this balance could be transferred back to the various funds.
2. The LG&A and Solid Waste Funds each had cash shortages as of June 30, 2007. Bank reconciliations were not properly prepared for these funds.
3. Proper documentation was not maintained for \$226,258 out of \$4,514,579 in expenditures tested. Original invoices were not maintained for these payments to vendors.
4. Overdraft charges were noted in several fund's bank accounts as proper bank reconciliations were not prepared.

Providing management with proper documentation for expenditures decreases the likelihood that vendors are paid an incorrect amount or paid twice. Properly prepared bank reconciliations decrease the chances of bank overdrafts and also provide management with correct cash balances needed to make sound financial decisions. Proper oversight over these areas is critical.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

2007-14 The Fiscal Court Should Maintain Adequate Financial Records And Provide Appropriate Oversight Over Financial Activities
 (Continued)

We recommend the fiscal court provide proper oversight to employees responsible for financial record keeping and day to day operations.

County Judge/Executive's Response: See his overall response at the end of this section

2007-15 The Fiscal Court Should Prepare An Accurate 4th Quarter Financial Statement

During our audit, we noted the following:

1. The fiscal court did not list outstanding encumbrances on the 4th quarter financial statement.
2. The fiscal court did not accurately record all budget amendments. The budget amendments for revenues and expenditures were not in balance on the 4th quarter financial statements. Below is a list of adjustments that were made to correct the budget amendments:

	R e c e i p t s	D i s b u r s e m e n t s
General Fund	\$ (473,626)	\$ (320,329)
Road Fund	(154,575)	(216,838)
Jail Fund	(16,805)	(87,850)
L G E A Fund	(86,795)	(116,918)
Forestry Fire Fund	(1,960)	
Solid Waste	198,804	(6,451)
911 Fund	(20,087)	(5,024)
Total Fund	\$ (555,044)	\$ (753,410)

3. The fiscal court overspent their General Fund approved budget. As stated above, budget amendments were not posted correctly on the 4th quarter financial statement. This caused the final budget to be overstated. Once corrections were made, the General Fund budget was actually overspent.

We recommend the fiscal court report outstanding encumbrances on the 4th quarter financial statement. In addition, we recommend the fiscal court ensure all budget amendments are correctly posted to the 4th quarter financial statement and that the fiscal court operate within their approved budget.

County Judge/Executive's Response: See his overall response at the end of this section

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)

2007-16 The Fiscal Court Has Made Numerous Social Security And Medicare Payroll Errors Resulting In A Liability In Excess Of \$30,000

Recommendations were made in the prior year audit for the Fiscal Court to seek immediate professional tax guidance to correct payroll issues. As of the date of this report, these issues have not been corrected. Therefore, taxable wages reported to the IRS on the county's 941 forms for Social Security and Medicare (FICA) were understated by approximately \$197,000 for calendar year 2005. The additional amount due from both the county employees share and Fiscal Court share is approximately \$15,000 each totaling \$30,000 for the 2005 calendar year that is due to the Social Security Administration. Also, the total gross wages reported on county employee's 2005 W-2 Wage and Tax Statements were \$777,421, which is understated by \$199,215 and should have been \$976,636. This was determined by comparing the 2005 Fiscal Court payroll summary to the federal wages reported to the Social Security Administration. It was also noted that during calendar year 2004, Social Security and Medicare wages were overstated because they included retirement withholdings. Additionally, there were nine checks totaling \$7,472 paid to county employees that no payroll withholdings were withheld and were not included on earnings records. Of the nine checks written, three totaling \$3,167 were paid to the former County Treasurer.

We recommend the Fiscal Court immediately seek professional tax guidance to correct these payroll issues by amending the appropriate reports, including the 2005 W-2 Wage and Tax Statements, and pay taxes due. We are referring this to the Social Security Administration, Internal Revenue Service, and the Kentucky Department of Revenue.

County Judge/Executive's Response: See his overall response at the end of this section

COUNTY JUDGE EXECUTIVE'S OVERALL RESPONSE

I appreciate the opportunity to comment on your recent audit of the Magoffin County Fiscal Court for FY 07. I was pleased to hear that most all of the deficiencies occurred during the administration of former County Judge Executive, Bill W. May. The relatively minor problems found for my administration such as one missing time sheet have been corrected.

Several of the major problems left behind by the previous administration have been corrected or are in the process of being corrected:

1. The County's tax liabilities with the IRS and the Kentucky Revenue Department have been resolved and paid.
2. IRS tax liabilities of the Magoffin County Sheriff have been paid.
3. Incorrect 2005 and 2006 W2s for County employees are being corrected.
4. Other inherited liabilities to the Commonwealth of Kentucky have been satisfied.

I feel, however, that the noted deficiencies fall in to three categories.

1. Overpayments to the Retirement System designed to artificially inflate long-term benefits for past employees. I will recommend to the Magoffin County Fiscal Court that we seek refund of these over payments from the County Employee Retirement System.

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2007
(Continued)**

COUNTY JUDGE EXECUTIVE'S OVERALL RESPONSE (Continued)

2. In regards to overpayments and financial problems during the first half to FY 06 (the last six months of the previous administration). I will recommend attempting to recoup these overpayments as these were not issues of which the auditor's office was aware.

3. Deficiency in prior years, 2005 and 2006, of which the auditor's office was aware. I believe these problems were refereed to other agencies and the previous Fiscal Court was made aware of these problems. I recommend no action on these deficiencies as I feel they should have been corrected by the previous State and County authorities. I realize these may appear on future audits, but I doubt there will any significant change in view of these particular problems.

I personally complement you on the thoroughness of your audit and the professional manner in which you dealt with the Magoffin County Judge-Executive's Office. If I, or my office, can be of assistance to you (field auditor) or the Auditor's Office, please feel free to contact us.

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**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

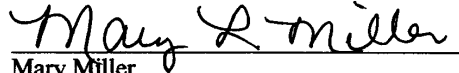
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
MAGOFFIN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2007

The Magoffin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Charles Hardin
County Judge/Executive



Mary Miller
County Treasurer

